

Mr. Dimock. None were addressed to W. M. Barnum or to Harvey Fisk & Sons.

Q. To what extent do the minutes of the Executive Committee indicate that Mr. W. M. Barnum participated in the committee's activities? A. Mr. W. M. Barnum's attendance at Committee meetings was listed together with the other members present and appeared again when he resigned. Aside from this Mr. Barnum's name appeared in connection with the Committee's activities only four times in the entire minutes.

Q. Did Mr. W. M. Barnum state the conclusions of the Executive Committee as claimed by Mr. Gunn at page 7598 of the transcript? A. No. There is no indication that he did.

Q. What was the total number of Executive Committee meetings and how many were attended by Mr. Dimock?

A. The Executive Committee held a total of 109 meetings all of which were attended by Mr. Dimock.

Q. How many of the Executive Committee meetings did Mr. Hutchinson attend in his capacity as Chief Engineer? A. Ninety-two meetings.

[19494] Q. How many Executive Committee meetings did Mr. W. M. Barnum attend? A. Eighty meetings.

Q. What did your investigation disclose as to the management of McCall Ferry Power Company? A. It disclosed that the active management of the company was in the hands of its officers, particularly Mr. Dimock, the President; Mr. Kirkland, the Vice-President and General Manager; and Mr. Hutchinson, the Chief Engineer.

Q. Who negotiated the contracts with Hugh L. Cooper and Sanderson & Porter for the construction of the project?

A. These contracts were negotiated by Mr. H. F. Dimock and Mr. C. A. Coffin.

Q. How were the members of the Board of Advisory Engineers of McCall Ferry Power Company employed?

A. On May 12, 1905, Mr. Hutchinson wrote to Messrs. H. L. Cooper, F. O. Blackwell and U. T. Main stating the

terms of their prospective employment. Mr. Hutchinson's arrangements were ratified and confirmed by the Executive Committee of McCall Ferry Power Company on September 20, 1905.

Q. Have you found any indication in the contemporary correspondence, documents or records that Harvey Fisk & Sons were entitled to or actually did receive 17,537½ shares of common stock of McCall Ferry Power Company? A. No. I found no such indication.

[19495] Q. Did you find any record of the transfer of any of the ten incorporators' shares of McCall Ferry Power Company from the names in which they were originally issued? A. The only transfer was recorded on June 22, 1906, when six of these shares were transferred to F. W. Walz.

Q. Where were construction expenditures charged on the books during the cessation period extending from November 1, 1907, to August 1909? A. To the regular detailed construction accounts of McCall Ferry Power Company.

Q. Why did McCall maintain its administrative and construction organization during the period of cessation? A. It wished to keep its trained construction team intact for the completion of the project?

Q. Was this goal achieved? A. No. Due to the long delay in obtaining additional financing the entire administrative and construction forces were finally discharged with the exception of a few watchmen and administrative employees.

Q. Did you find any evidence that the maintenance of this standby administrative and construction force during the period of cessation resulted in any reduction of the cost to complete the project through any saving or any necessary expenditure avoided when the project was finally completed by the Receiver and Penn Water? [19496] A. None whatever.

Q. Did you eliminate from the original cost of plant the cost of reestablishing the construction plant in 1908 for

the tailrace work or the cost of reopening the project incurred by the Receiver in 1909? A. No, I did not.

Q. Who had direct supervision of the limited amount of construction work done by McCall Ferry Power Company during 1908? A. Mr. J. B. Goodwin, an engineer on the payroll of McCall Ferry Power Company was placed in charge of the work.

Q. Did Mr. Hutchinson exercise any direct supervision of the construction work carried on in 1908? A. No.

Q. What was the nature of Mr. Hutchinson's work during the cessation period? A. His work was administrative in character such as planning the work suspension; budgeting the company's activities; planning for the future resumption of work and the eventual completion of the project; estimating plant costs, costs to complete, and prospective earnings; reporting on the progress of the work and the condition of the work, etc.

Q. Did you find any indication in the records that the work done by Hutchinson during the period of cessation resulted in any saving or the avoidance of any necessary expenditure [19497] when the work was finally completed by the Receiver and Penn Water? A. None whatever.

Q. Did Albert S. Crane and J. D. Mortimer prepare a report dated September 10, 1908 for Electric Bond and Share Company as to the condition of the work at McCall Ferry? A. Yes.

Q. How was the balance of the Cessation Account on the books of McCall Ferry Power Company described in that report? A. The balance was described as "Loss due to Stoppage of Work".

[19506] Q. Did Penn Water provide an office for Mr. Bushong during the period from 1912 to 1915? A. No.

Q. Did your investigation indicate whether Penn Water by March, 1916 had acquired all the flowage rights necessary for its flashboard installation? A. The correspondence indicated that the company believed it had the

necessary rights for its flashboards after the acquisition of the Woelpper property in March, 1916 and immediately took steps to replace the flashboard installation.

Q. Why did Penn Water acquire the Hiemenz, Heine and Harnish properties in 1920? A. These properties were acquired on the general [19507] recommendation of Carney and Lindemuth in their report of June, 1920 as a site for the river coal plant later built by Anthracite Production Corporation.

Q. Why did Penn Water acquire the Vandersloot, Colemanville Water and Power Company, Lancaster & York Furnace Street Railway Company, and Alice M. Tripple properties in 1921? A. To settle flashboard suits brought by these parties in the latter half of 1918.

Q. Did these suits ever come to trial? A. No.

Q. Were any flashboard suits filed after 1918? A. One suit was filed in 1929 and another in 1933.

Q. Why did Penn Water acquire the Hiemenz property in 1922 and the Rineer and Martin properties in 1923? A. To provide further area for the river coal recovery operations of Anthracite Production Corporation.

Q. Why did Penn Water acquire the Manor substation site? A. This site was acquired in connection with the Safe Harbor development.

Q. When did the owner of the DePue property bring suit against Penn Water? A. In November, 1924.

Q. How many flowage basin properties were acquired for the Holtwood project between 1926 and 1929? [19508] A. Only one property was purchased—the George B. Willson property acquired in 1927.

Q. Did Penn Water undertake any construction during the years 1916 to 1922? A. Only minor work. The company's major construction program was completed at the end of 1914.

Q. What transmission lines were built between 1916 and 1929? A. The Coatesville and York lines were built in 1923 and the Lancaster Line in 1925.

Q. Who acquired the rights of way for these lines?

A. Penn Water employed several agents to acquire the rights of way.

Q. Were the salaries and expenses for these agents included as a cost of constructing the lines? A. Yes.

Q. To how many road and bridge relocations did Penn Water contribute from 1916 to 1929? A. Penn Water contributed to the replacement of the Otter Creek Bridge in York County in 1923 and to the relocation of a highway in Conestoga Township during the same year.

Q. Mr. Newlands, do you have a copy of Simpson, Thacher & Bartlett's bill for legal services which was attached to voucher 6892, referred to in the last paragraph on page 1 of Exhibit 239? [19509] A. Yes. I have a copy made from the original bill in the company's files.

Q. What does the bill indicate as to the distribution made by the company of the bill on its books? A. A handwritten notation on the bill distributes the total charge of \$2,044.15 by assigning \$1,000 to Bond Issue Expense, \$44.15 to Flowage Basin, and \$1,000 to Accounts Payable Suspense (Legal).

Q. Was this distribution entered on the company's books of account? A. Yes, but a later entry transferred the \$1,000 originally charged to Accounts Payable Suspense (Legal) to Flowage Basin.

Q. What was the nature of the services which the company classified as Accounts Payable Suspense (Legal)? A. They were general legal services chargeable against income.

Q. What item is classified to Flowage Basin Account on the bill? A. An item is called "Consideration of the Woelpper injunction case."

MR. HALL: Mr. Examiner, I would like to have marked for identification a bill from Simpson, Thacher & Bartlett, dated December 20, 1915. It consists of two photostatic pages.

TRIAL EXAMINER: It will be marked for identification as [19510] Exhibit No. 444.

(The document above referred to was received and marked for identification as Exhibit No. 444.)

By Mr. HALL:

Q. Did Simpson, Thacher and Bartlett handle the trial or preparation of the Woelpper injunction case? **A.** No. Mr. W. U. Hensel handled the entire case for Penn Water.

Q. Did Mr. Malone's bills to Penn Water, referred to in the second paragraph on page 2 of Exhibit 239, show the nature of the legal services rendered by him? **A.** No.

Q. Did the bills or vouchers show the basis for the distribution of the fees to flowage basin? **A.** No.

Q. Are there any records available showing the details of the work done and time spent by Mr. Malone for which he rendered these bills? **A.** I know of none and the company has given me none except a general statement by Mr. Bortner expressing his personal opinion as to what the charges represent.

Q. Have you found any record showing that Malone actually negotiated the purchase of any property for Penn Water? **A.** No.

Q. How did the company classify these legal fees in its [19511] original cost reclassification? **A.** As general overheads.

Q. Have you been able to determine from the Company's records any amounts charged to Flowage Basin subaccounts E, River Observations; 6, 6E and 6L, Engineering Expenses, or 6N, 6O or 6T, Office and Miscellaneous Expense, which resulted from and were necessary for the purchase of any of the properties acquired by Penn Water? **A.** No.

Q. Have company representatives presented to you any evidence relating the individual charges for engineering expenses in the Flowage Basin account to the purchase of any property, describing the work done, the cost, and explaining

the necessity of the expenditure for the acquisition of the property? A. None other than a statement made by Mr. Bortner expressing his personal opinion as to the general nature of the charges in Flowage Basin Account.

Q. Do you refer to Mr. Bortner's statement which has been offered by the Company as Exhibit 237 in this case?

A. Yes.

Q. Where should the cost of hydrographic surveys, river observations, backwater observations, gauge readings, etc., be charged after the beginning of commercial operation? A. They should be charged to operating expenses.

Q. How should expenses incurred in connection with the [19512] investigation of and cost of defending against flooding and damage claims be treated on the books? A. As an operating expense.

Q. Did you ask Mr. Bortner the nature of the duties assigned to the Lancaster office? A. Yes, and the information he furnished me is contained in a memorandum dated December 12, 1945.

MR. HALL: I ask to have marked for identification a document consisting of five photostatic pages captioned "Memorandum—Re: Lancaster Office Expense," dated December 12, 1945.

TRIAL EXAMINER: It is marked for identification as Exhibit 445.

(The document above referred to was received and marked for identification as Exhibit No. 445.)

[19517] Q. Have you investigated the items listed on Schedules K-1, K-2 and K-3 of Company's Exhibit 320? A. Yes.

Q. What is the character of the items listed in Schedule K-1? A. Except for Item No. 1, all the items on Schedule K-1 represent necessary repair and maintenance work involving replacement of individual parts of equip-

ment or structures. Item 1 represents the replacement of a minor one.

Q. Did the original entries made on the books for these transactions represent an accepted accounting practice at the time of the entry? A. Yes.

Q. Did the company in making its calculations of betterments on Schedule K-1 use current price quotations as at the date of replacement for the old parts being replaced? A. No. With the possible exception of one item, the company resorted to estimates arrived at by trending the cost of the old item to the year of replacement by means of commodity price indices. In some cases where the item being replaced represented a part of a machine bought as a unit, even the original cost of the old part had to be estimated.

Q. Are commodity price indices an accurate measure of the current price of replacement parts for old equipment? [19518] A. No.

Q. What is the character of the items listed on Schedule K-2? A. These items represent mainly straight maintenance and repair work but include some relocation and rearrangement work and a few replacements.

Q. Did the original entries made on the books for these transactions represent an accepted accounting practice at the time of the entry? A. Yes.

Q. Which items represent relocations or rearrangements of equipment? A. Items 6, 11, 18 and 20.

Q. Is the cost of relocating or rearranging equipment a proper charge to plant account? A. No.

Q. Has the company capitalized any part of the cost of relocation of Items 6, 11, 18 and 20? A. Yes, the company capitalized \$2,900 of the cost of relocating the Low-Tension Bus Reactors and \$11,000 in connection with the modification of the pull boxes.

[19519] Q. Were any substantial additions of new equipment made in connection with the relocation of Items 11 and

18? A. No, the material used was primarily to replace existing facilities.

Q. Do you recommend that any additional amount be added to plant account as a result of these relocations listed on Schedule K-2? A. No. If any adjustment is made the amount already charged to plant account should be materially reduced.

Q. Which items listed on Schedule K-2 are replacements of previously existing items of equipment? A. Items 4, 8 and 19.

Q. What is the proper accounting for the item of alterations to leased premises, Item 21? A. It was properly charged to operations when incurred.

Q. Were the construction plant buildings listed at Item 26 used in the company's operations? A. Yes, they were used in the company's operations until 1928 when they were replaced by permanent stores and shops buildings which were erected at that time.

Q. What do the rest of the items on Schedule K-2 represent? A. They are all maintenance and repair items.

Q. Do you recommend that the company be allowed to add to plant account the items listed on Schedules K-1 and K-2? [19520] A. No. They were properly treated as repair and maintenance items when incurred.

Q. Is there any precise accounting standard which determines what portion of minor replacements or repair and maintenance work, if any, shall be treated as a betterment or capital addition? A. No, the determination of what portion, if any, of items of this nature should be added to plant account is largely a matter of managerial judgment which varies from company to company and from period to period. So long as the policy adopted results in a reasonable statement of operating expenses and plant costs it is acceptable under accounting standards. As a general rule great caution should be exercised in the capitalization of items of this nature.

Q. In your opinion, is it proper accounting practice to review and change decisions of this nature made previously in accordance with accepted accounting practices and to adjust the books retroactively to agree with the latest policy. A. No, such reaccounting would seriously violate sound accounting principles.

Q. What is the character of the items listed on Schedule K-3? A. These items represent replacements of existing facilities made prior to the time the company began recording retirements of property on its books or during the period [1952] immediately following when the change to a retirement policy was being effected. Prior to the adoption of the policy of recording retirements, the cost of replacing facilities was charged by the company to the depreciation reserve or to operating expense in lieu of removing the cost of the old facility from plant account and adding the cost of the new.

Q. Did the entries made on the books for these transactions represent an accepted accounting practice at the time of the entries? A. Yes.

Q. Do you recommend that the items be reaccounted for as proposed by the Company? A. No. The items were accounted for properly when the entries were made and should not be subject to a later reaccounting. The original accounting for item 2, covering the repaving of tailbays 5 and 6 in order to fill in the eroded rock surface of the tailbays, and item 13, covering the relocation of the railroad track into the hydro station, is preferable to the reaccounting proposed by the company in Exhibit 320.

[19527] Q. I show you a tabulation entitled "Consolidated Balance Sheet, December 31, 1946, Per Books and As Adjusted." Was this statement prepared by you? A. Yes, this statement was prepared by me from the books and records of the Company.

MR. HALL: Mr. Examiner, I would like to offer this document entitled "Consolidated Balance Sheet, December 31, 1946, Per Books and As Adjusted" for identification.

TRIAL EXAMINER: The document may be marked as Exhibit Number 449 for identification.

(The Document referred to was marked for identification as Exhibit Number 449.)

By MR. HALL:

Q. Will you describe the statement just identified?

A. The statement just identified is a consolidated balance sheet of Pennsylvania Water and Power Company and its wholly owned subsidiary, Susquehanna Transmission Company of Maryland, as at December 31, 1946, and shows the financial position of [19528] the companies at that date on a consolidated basis. The first column shows the balances per books. The second column shows the examiners' adjustments on a basis consistent with the adjustments made by the examiners at December 31, 1945 as shown by Exhibit 51. The third column shows the adjusted balances.

Q. I show you a tabulation entitled: "Summary of Construction Work in Progress (Consolidated), as at December 31, 1946." Was this statement prepared by you?

A. Yes, this statement was prepared by me from the books and records of the Company.

MR. HALL: Mr. Examiner I would like to offer this document entitled "Summary of Construction Work in Progress (Consolidated), As at December 31, 1946" for identification.

TRIAL EXAMINER: The document may be marked for identification as Exhibit Number 450.

(The Document referred to was marked for identification as Exhibit Number 450.)

By Mr. HALD:

Q. Will you please describe the statement just identified? A. The statement just identified contains a list of the construction work in progress at December 31, 1946, for Pennsylvania Water & Power Company and Susquehanna Transmission Company of Maryland as shown by the books.

[19561]

CROSS-EXAMINATION.

By Mr. KING:

Q. Now, Mr. Newlands, will you please refer to the portion of your rebuttal testimony covering the loss in materials and supplies? I believe it is page 19488 of the transcript. Do you have that before you? A. No, I haven't.

Q. Would you secure a copy of the transcript so I can keep my copy before me? [19562] A. Yes, sir. I have it.

By Mr. KING:

Q. Mr. Newlands, do you know that the 8,626 barrels of cement referred to by you at transcript 19490, line 11, were Union cement? A. The records that I saw didn't indicate clearly, but I think that was indicated by what I did have available.

Q. Are you aware of the fact that the mixer plant of the company was destroyed by fire on July 31, 1911? A. Yes.

Q. Are you aware of the fact that there were approximately 21,000 bags of Union cement destroyed by that fire? A. I was aware that there were 21,000 bags of cement. I was not aware that it was destroyed by fire, however. The correspondence indicates that the fire didn't harm the cement.

Q. Did not? A. That is right.

Q. I show you a document entitled "Schedule of property of Pennsylvania Water and Power Company, McCall [19563] Ferry, Pennsylvania, fire of July 31, 1911," and ask you to turn to page 3 of that document and ascertain whether or not the company claimed the loss of 21,000 bags of Union cement.

TRIAL EXAMINER: What is this document?

MR. KING: That is a copy, I believe, of the claim to the insurance company by the company in connection with the loss as a result of the fire which destroyed the mixer plant.

TRIAL EXAMINER: When was that filed with the insurance company?

MR. KING: July 31, 1911.

MR. GOLDBERG: Mr. Examiner, we object to the use of this document. On its face it does not show that it is a [19564] claim that was filed with an insurance company. It is merely entitled "Schedule of the property of Pennsylvania Water and Power Company." No foundation has been laid showing that the witness is familiar with this document, nor has there been any showing of relevance to the periods of time which the witness Newlands is dealing with. This is dealing with a fire of July 31, 1911, and referring to the testimony, the witness Newlands is referring to an inventory made at December 31, 1908. The other dates I see are the date of the appointment of the receiver, July 17, 1909, and both the dates I have referred to are long before July 31, 1911, and we submit there isn't any showing of relevancy.

TRIAL EXAMINER: What is Respondents' counsel's reply to that?

MR. KING: Might I ask a question or two more of the witness before I answer, your Honor? I think it may clear the situation up.

TRIAL EXAMINER: Yes.

By MR. KING:

Q. Mr. Newlands, where did you get the information that enables you to recollect a reference to 21,000 bags of Union cement? A. There are several letters in the file containing a reference to it.

[19565] Q. And did you examine that file yourself, personally? A. Yes, sir.

Q. From which those letters came? A. Yes.

Q. And was not the document that I have heretofore handed you included in that file? A. I don't recollect. It may have been.

Q. But you just didn't see it? A. I don't recall now.

Q. Whether you saw it or not? A. That is right.

Q. You do know, however, do you not, that there were 21,000 bags of Union cement destroyed by fire?

A. The correspondence I saw indicated that a claim had been made on the insurance company for damaged cement, and that the insurance company had protested it and said that the heat from the fire would not damage [19566] the cement, and that the company was willing to accede to that statement by the insurance company.

By MR. KING:

Q. Do you know whether there was a credit to the cement account?

A. No, I don't know.

By MR. KING:

Q. You don't know that? A. No.

TRIAL EXAMINER: How do you connect up the 18,490 barrels of cement included in the inventory of December 31, 1908, with the 21,000 bags or barrels contained on that insurance claim?

MR. KING: I was going to go ahead and do that;
Mr. Examiner.

TRIAL EXAMINER: All right.

MR. HAL: Did you intend, Mr. Examiner, to refer to 35,736 barrels or only to the Union cement?

TRIAL EXAMINER: Only to the Union cement. The 21,000 related only to Union, didn't it?

MR. KING: Yes.

By MR. KING:

[19567] Q. Mr. Newlands, do you know how many barrels are represented by 21,000 bags of cement? A. It depends on the type of cement.

Q. Union cement. A. I believe it was three bags to a barrel, or 7,000 barrels.

Q. 7,000? A. Yes.

Q. Assuming that the fire did destroy 7,000 barrels of Union cement, should not your 19,258 barrels referred to at transcript 19490 be reduced by that amount, to 12,258 barrels?

A. You are referring now to line 20 of page 19490?

By MR. KING:

Q. Line 21. [19568] A. No, I see no reason for reducing that 19,258 barrels by 7,000 barrels.

Q. Assuming that 7,000 barrels were destroyed by fire? A. Even assuming that the 7,000 barrels had been destroyed, which is contrary to the facts as I have found them.

Q. You wouldn't reduce, even though that were so, the 19,258 barrels?

A. I would not reduce that number of barrels.

By MR. KING:

Q. Why not, Mr. Newlands? A. Because there is no reason to.

Q. The 19,258 barrels includes both types of cement, namely, Union and Giant and Atlas, does it not? A. I presume it does, yes. There is not a very clear indication of what types of cement are left, or how much of each is left, but I presume that it includes both types.

Q. If it does include both types, and there was a loss of 7,000 barrels, why wouldn't it be deducted from your figure of 19,258 barrels?

[19569] MR. GOLDBERG: May I have the question?

TRIAL EXAMINER: Read it.

(Question read.)

A. I apparently don't understand what you are getting at.

By MR. KING:

Q. The 7,000 barrels should be a construction loss, should they not, assuming they were destroyed? A. Certainly not.

Q. What would you do with it? A. It had nothing to do with construction. It would be an operating loss.

Q. How would you handle the loss of 7,000 barrels? A. It would be charged off as an operating expense. Certainly it isn't a construction loss.

Q. At a time when the company was not operating? A. The company was operating in 1911.

Q. Assuming the company was not operating, would that be the manner in which you would handle the loss of 7,000 barrels?

[19570] A. Based on your assumption, I still do not believe that a loss of cement due to a fire is a proper construction cost.

By MR. KING:

Q. How would you handle it? A. In the first place, it should have been insured against, and insurance recovered, so there would have been no loss, if that were the

case. If there were such a loss, and the company were not operating, it would be a charge against surplus. All losses occurring during a construction period are not a construction cost.

Q. Now, Mr. Newlands, do you know how many barrels of cement were used by McCall Ferry Power Company for construction?

. . .

[19571] MR. KING: Beginning with the beginning of construction and continuing to July 16, 1909.

. . .

A. I believe the company has prepared some statistics in that regard, and I don't know whether it covered that particular period or not, but I believe it did.

By MR. KING:

Q. Do you know how many barrels were used in that particular period? A. Not offhand, no.

Q. In your opinion, what would be a reasonable percentage of loss due to spoilage and other causes on a [19572] project of this size and character? A. I don't know, but it certainly wouldn't amount to any such spoilage as occurred in this case.

Q. Have you any idea as to what a reasonable percentage of loss would be?

. . .

A. No, I have no exact percentage in mind, except that it would be relatively small. It would not be in any way comparable to the loss that occurred in this particular instance.

By MR. KING:

Q. What do you mean by "relatively small," Mr. Newlands? A. Not more than a few percent.

Q. I beg your pardon? A. Not more than a few percent.

Q. A few percent? A. That is right.

Q. What do you mean by "a few percent"? A. Oh, less than, say, 4 percent.

[19573] Q. Will you assume, Mr. Newlands, that during the period I mentioned to you, there were 263,000 barrels of cement used? Now, as I understand it, you believe that a reasonable loss for spoilage would be about 4 percent of that? How many barrels would that amount to? A. I said less than 4 percent.

Q. All right. How many barrels would you think would represent a reasonable spoilage of 363,000 barrels? A. Did you say 363,000 or 263,000?

Q. 263,000 barrels. Excuse me. A. In my opinion, not more than, at the most, a thousand bags, and that is considerably less than 4 percent.

Q. A thousand bags. How many barrels is that? A. Well, is your 263,000 barrels or bags?

Q. Yes, 263,000 barrels. A. Less than a thousand barrels. And that would be a very generous estimate.

Q. How many percent is a thousand barrels of 263,000 barrels? A. It is less than a half of 1 percent.

Q. Why do you think less than a half of 1 percent is a reasonable spoilage here, when you indicated a percentage of 4 percent a little earlier?

[19574] A. It depends a great deal on the amount of cement used. If a small amount of cement is used on jobs that are scattered all over, you will have a greater loss than otherwise. If you are using a great quantity of cement, spoilage can be kept down.

By MR. KING:

Q. Have you had any experience in the use of cement, Mr. Newlands? A. Well, I have had some knowledge of the construction of a reinforced cement building.

Q. Is that the only experience you have? A. That is right. The spoilage in cement, by the way, that would have occurred during a construction period, would have been included in the cement already charged to construc-

tion. It is not included in the 30,000-odd barrels that were left. That was good cement, supposedly, that was on hand, and was inventoried. But cement that had already spoiled during the construction period was charged to construction and is still in construction costs.

Q. Mr. Newlands, is it not a fact that some of the 19,258 barrels referred to by you may have been used in [19575] construction? A. No. I saw no indication that would indicate that that had ever been used in construction.

Q. Do you know that it wasn't used? A. I am pretty certain of it. There is nothing to indicate that it has been used.

Q. And is there anything to indicate that it had been used? A. There is nothing to indicate that that cement had been used. There is considerable correspondence to indicate that it had spoiled, and couldn't be used.

Q. Mr. Newlands, do you have Exhibit 320 for identification before you? A. Yes, I have it.

Q. Will you refer to Item 11, Schedule H? A. Yes.

Q. Do you dispute the fact that this loss in the amount of \$8,970.34, shown there, was due to a writedown in value of the cement by the receiver from \$1.73 per barrel to 58¾ cents per barrel?

. . .

[19576] A. The records of the receiver show that that cement had originally been set up on the books at \$1.73 a barrel, and subsequently had been written down to, I think 58½ cents a barrel due to the fact that it was not in the best of condition.

By MR. KING:

Q. The amount of the reduction that you have just spoken of applied to 7,852 barrels of cement; isn't that true? A. That is correct.

Q. Do you dispute the fact that this cement was actually used in construction? [19577] A. No; the 7,852 barrels was used in construction.

Q. Mr. Newlands, will you please turn to the portion of your rebuttal testimony having to do with the arms' length transactions between McCall Ferry and Fisk? I believe it appears at transcript 19491. Rather it begins at that page. Do you have that before you? A. Yes.

Q. I direct your attention to that portion of your answer which appears on line 24 on that page, which is as follows: "No, I found no such evidence or indication."

Do you mean by that sentence that you determined whether or not there was any evidence in existence concerning this arms' length transaction? A. Which arms' length transaction are you talking about?

Q. The one you are talking about, beginning on page 19491. A. I don't know of any arms' length transaction here.

Q. The question was asked you, at line 21:

"Did you, during your investigation, find any evidence which indicated that the firm of Harvey Fisk at any time controlled McCall Ferry Power Company?" that was the question.

I want to know whether or not in that portion of the answer which I have just quoted you meant that you [19578] determined there was no evidence of that fact. Is that what you mean by that answer? A. That is right. The correspondence and the records I examined gave no indication that Harvey Fisk & Sons controlled McCall Ferry Power Company.

Q. You said you found no evidence of that fact. My question is: is that your opinion as to whether there was any evidence or not, alone? Or did you receive any legal advice from Mr. Goldberg or anybody else? A. No, that was my opinion.

Q. What do you mean by the word "evidence," Mr. Newlands? Are you referring to what has been introduced in this case when you refer to evidence? A. No, I am referring to all of the records and memoranda which I have examined. The fifteen filing cabinets and the minutes.

Q. Does that description "all of the evidence," include the evidence on original cost introduced in this proceeding? A. That is correct.

Q. When you made that statement to which I have just referred, namely, "I have found no such evidence or indication," did you have in mind Part 14 of Exhibit 27, in this case? And I will present that to you.

[19579] By MR. KING:

Q. Part 14 of Exhibit 27.

TRIAL EXAMINER: What is that?

MR. KING: That is a letter from Houseman to Messrs. Harvey Fisk & Sons, Bankers, New York, New York, dated April 18, 1905.

By MR. KING:

Q. Would you examine that, Mr. Newlands, and tell me whether you had that statement in mind when you made the answer I have just referred to? A. Yes, I had this letter in mind.

Q. I have particular reference to the next to the last paragraph of that letter, Mr. Newlands, on page 117 of Exhibit 27, which is to the effect that the writer, Mr. Houseman, states that he is writing this letter to Fisk & Sons somewhat in detail for the reason that Fisk's interests on the river are apparently in conflict "with our plans, which were being worked out on the river long before Dr. Hatchison had acquired any property rights there." [19580] That is the paragraph that I had reference to.

[19581] By MR. KING:

Q. Did you have that in mind when you made the statement that there was no evidence? A. Yes, I had that in mind. Houseman was in no position to know who controlled McCall Ferry Power Company.

Q. In your opinion, you mean? A. As shown by the records that I have examined and as shown by the other correspondence in the files.

Q. In your opinion? A. It would have to necessarily be my opinion.

Q. When you made that statement to which I have just referred, at line 24 of transcript 19491, did you have in mind the affidavits of Mr. Hutchison and Mr. Fisk, which appear in Exhibit 27? A. Yes, I had those in mind.

Q. Having them in mind, you still made the statement, at line 24, transcript 19491; is that correct? A. That is correct. I believe the actual records of the events as they happened in 1905 are a better indication than an affidavit made 30 to 40 years later by a man—

[19582] By MR. KING:

Q. You just stated that you thought other evidence was better than the Fisk and Hutchison affidavits. Is that what you mean by the quotation "I found no such evidence or indication"?

THE WITNESS: My quotation indicates that there is no evidence that Harvey Fisk and Sons controlled McCall Ferry Power Company. It does not indicate that there is no evidence that Harvey Fisk and Sons didn't control it. As a matter of fact, there are letters in evidence which indicate that the control was a mutual affair by the five interests.

MR. KING: Might we have the question and answer read? I don't believe the answer is responsive, Mr. Examiner.

TRIAL EXAMINER: Yes.

(Question and answer read.)

MR. KING: I move the answer be stricken and the witness be directed to give a responsive answer.

TRIAL EXAMINER: Read the question, please.

(Question read.)

MR. KING: The point is, if your Honor please, that the [19583] prior statement indicates that the answer on line 24 is now a little incorrect.

TRIAL EXAMINER: I think the answer could be more responsive in form. Answer the question, Mr. Witness, with whatever explanation you deem necessary.

THE WITNESS: May I have the question again?

TRIAL EXAMINER: Yes.

(Question read.)

THE WITNESS: No, my quotation was not directed to answering a question such as the one you have just put to me. It was directed to the point that there was no evidence in the files that Harvey Fisk and Sons controlled McCall Ferry Power Company. There is evidence in the files that the five interests mutually controlled McCall Ferry Power Company.

By MR. KING:

Q. There is also evidence in the files in the form of the Fisk affidavit and Hutchison affidavit that Fisk did control the enterprise; isn't that correct? A. That was not contemporary evidence.

Q. I didn't ask you that.

MR. KING: Mr. Examiner, I ask that the witness be directed to answer responsively the question put.

MR. GOLDBERG: I think the difficulty is in the form of the question. Is he asking the witness whether the witness assessed one document against another document and decided [19584] that one, in his opinion, was entitled to more weight than the other one? If that is the question I think it will eliminate the difficulty.

MR. KING: I think that is a perfectly simple question.

TRIAL EXAMINER: You may answer, Mr. Witness.

THE WITNESS: There have been statements filed by the Company, obtained from these persons, to that effect which are at variance with the actual facts as I found them in the files.

By MR. KING:

Q. So, then, you have come to the conclusion, in giving the answer on line 24 of transcript 19,491, that those affidavits are not evidence and not entitled to any consideration; is that correct? A. I believe those affidavits do not correspond to the actual facts of the situation and therefore should be given no consideration.

Q. Did you take any legal advice in coming to that conclusion? A. No. That is my own opinion.

Q. Now, Mr. Newlands, in making the statement to which I have just referred, at line 24, transcript 19,491, did you [19585] have in mind the Hopkins affidavit, Part 24, of Exhibit 27? I believe you have Exhibit 27 before you. A. Yes, I had that affidavit in mind.

Q. And you considered that that was not proper evidence, in your opinion. Is that right? A. Well, I would have to read it to find what it states about control there.

Q. Will you please do so? A. Yes, sir. (Witness reads document.) Yes, I had that letter in mind.

Q. And you considered that was not proper evidence in coming to your conclusion at line 24 of transcript 19,491; is that right? A. I considered that it conflicted with the actual facts as I had discovered them.

Q. Did Mr. Hopkins' statement that Condert Bros., as counsel, were replaced by Simpson, Thacher and Bartlett conflict with the actual evidence, in your opinion? A. I don't know what connotation the word "replaced", there, has. I know that Simpson, Thacher and Bartlett became

counsel for McCall Ferry Power Company—one of the counsel.

Q. But that doesn't conflict, then, with the evidence in the case; is that right? A. Coudert Bros. had never been counsel for McCall [19586] Ferry Power Company.

Q. Had they been for Hutchison? A. Semple had.

Q. Well, he was a member of the firm of Coudert Bros., wasn't he? A. He was associated with Coudert Bros. I don't know whether he was a member of the firm or not.

Q. You had that fact in mind when you made the statement we are discussing? A. Yes. A change in counsel doesn't indicate control, by any means.

Q. To you. Is that correct? A. It doesn't mean it to me, and it is my belief it doesn't mean it to anybody. But of course—

[19587] By Mr. King:

Q. Mr. Hopkins, who signed the affidavit now in front of you, Mr. Newlands, was a director of the Susquehanna Power Company, was he not? A. Yes, I believe he was.

Q. I'm sorry. I said Susquehanna Power Company. I meant Contracting Company. That is what you meant, too, wasn't it? A. Yes, I meant Contracting Company.

Q. And he owned, or held, one share of the stock of that Company, did he not? A. I believe that is correct.

Q. Mr. A. P. Bartlett held three shares of the stock of that Company, did he not? A. I believe he held some shares. I don't know the exact amount.

Q. And he was a brother of Mr. P. G. Bartlett of Messrs. Simpson, Thatcher and Bartlett isn't that correct? A. I don't know that.

Q. Mr. Newlands, do you know whether or not Mr. Fisk was present at the executive committee meeting at which the Cooper contract was approved and authorized to be executed? A. No, I don't know that.

Q. I show you page 4 of the minutes of the executive committee and ask you to examine them and tell me whether

or [19588] not they show that Mr. Fisk was present. A. The minutes of the executive committee of McCall Ferry Power Company, dated October 18th, 1905, state that the president reported that pursuant—

Q. I only want to know whether they show that Mr. Fisk was present. That is a simple question, Mr. Newlands.

A. You also asked me whether the particular minutes covered the approval of Mr. Cooper's contract—

Q. Will you answer the question, first, as to whether Mr. Fisk was present or not?

THE WITNESS: The minutes of the executive committee of McCall Ferry Power Company, dated October 18, 1905, state that the president reported that, "pursuant to the authority heretofore given, he and Mr. Coffin had agreed with Mr. Cooper upon the terms of a contract to be entered into for securing the services of the latter in the construction of a dam," etc., at McCall Ferry.

[19589] The minutes also indicate that Messrs. Dimock, Parsons, Coffin and Bertron, of the Committee, and, by request, Messrs. Fisk, Lane and Hutchinsen—were present.

By MR. KING:

Q. You didn't read it all, Mr. Newlands. I hope you didn't fail to do so purposely.

The minutes also indicate that "the president is hereby authorized and directed to execute on behalf of this Company a contract substantially in the form submitted at this meeting." A. That is correct.

MR. GOLDBERG: He did try to read, but you didn't like it. Then, when he did read it, you thought he hadn't read enough.

MR. KING: That is right. I still didn't like it.

TRIAL EXAMINER: All right, that's enough.

By MR. KING:

Q. Until December 6, 1905, Mr. Newlands, the executive committee meetings were held at Fisk's New York office; is that correct? A. I don't know that to be the case.

Q. I show you the original minutes of October 4, 1905, and ask you if the first paragraph of them does not indicate that the meeting was held at No. 62 Cedar Street, New York City.

[19590] THE WITNESS: Yes, the minutes of October 4 indicate that that is so.

By MR. KING:

Q. Will you look through the book, from the minutes on October 4 on, and see if that same address does not appear until the minutes of December, 1905?

THE WITNESS: The minutes of the executive committee from October 4, 1905 to and including December 6, 1905—including some dozen or so [19591] meetings—apparently were all held at No. 62 Cedar Street.

By MR. KING:

Q. Will you turn to Exhibit 27, which you have before you, on pages 158 to 160. Do you have that before you? A. Yes, sir.

Q. The first letter, on page 158 of Exhibit 27, is addressed to Harvey Fisk and Sons at 62 Cedar Street; isn't that correct? A. That is correct. That, of course, doesn't indicate that there weren't other firms at 62 Cedar Street besides Harvey Fisk.

Q. It indicates that he was at 62 Cedar Street, and these minutes indicate that the meetings were held at 62 Cedar Street. A. It doesn't indicate that that was Harvey Fisk and Sons' offices.

Q. Do you deny that Harvey Fisk's office was at 62 Cedar Street?

[19592] THE WITNESS: I have made no check as to exactly where Harvey Fisk was located. Some of the letters addressed to them are addressed to 62 Cedar Street.

By MR. KING:

Q. One of those appears at page 158 of Exhibit 27 that you have just looked at; isn't that correct? A. That is correct.

Q. Another one appears at page 160 of the same exhibit. That is correct, is it not? A. That is correct.

[19594] By MR. KING:

Q. Before lunch, Mr. Newlands, you made reference to five interests at McCall Ferry. Will you name the interests you had in mind? A. Harvey Fisk and Sons; Bertron, Storrs and Griscom; Lee Higginson and Company; C. A. Coffin and the Hutchinson interests.

Q. Did any of those five, except Fisk, have an office at 62 Cedar Street, New York? A. I don't know where their offices were located, with the exception of McCall Ferry Power Company, which had an office at 60 Wall Street late in the year.

Q. But not at 62 Cedar Street? A. Their general office was at 60 Wall Street.

Q. Will you please turn to transcript page 19,495? In line 5 thereof you referred to a Mr. F. W. Walz. Do you know, as a matter of fact, that he was associated with Harvey Fisk? [19595] A. No, I do not.

Q. Mr. Newlands, I show you a letter dated March 21, 1908, taken from the general letter book number 4 of the Company, and ask you to look at that and see if that does not indicate that that letter was written to Mr. F. W. Walz at Harvey Fisk and Sons, 62 Cedar Street, New York City. A. This letter apparently dated March 21, 1908, is from

H. F. Dimock to F. W. Walz, Esquire, Messrs. Harvey Fisk and Sons, 62 Cedar Street, New York City.

. . .

TRIAL EXAMINER: Is there any objection to copying that short letter in the transcript?

. . .

March 21, 1908.

F. W. Walz, Esq.,
Messrs. Harvey Fisk and Sons,
62 Cedar Street,
New York City, N. Y.

[19596] Dear Sir:

At William Henry Barnum's request I return you herewith the stock certificate book of the common stock of the McCall Ferry Power Company, and have signed, as he requested, in blank, two certified copies, 26 and 27, and have had the seal of the Company placed thereon.

/s/ H. F. DIMOCK,
President.

By MR. KING:

Q. Mr. Newlands, do you know whether Mr. Hutchinson exercised at any time during the construction of the McCall Ferry Power Company project any direct supervision of the work? A. No. The direct construction work was under the supervision of Mr. Value, as assistant of Mr. Cooper. He was replaced by Mr. J. B. Goodwin when Value left, in November of 1907.

Q. Isn't it a fact— Had you finished? A. Yes.

Q. Isn't it a fact, Mr. Newlands, that both Hutchinson and the administrative force at the McCall project both worked on drawings during the so-called cessation period?

. . .

[19597] THE WITNESS: No, that is not a fact.

By MR. KING:

Q. You say that is not a fact? A. No.

Q. Mr. Newlands, do you know, as a matter of fact, that Hutchinson and the administrative force worked on drawings in New York City, which drawings had to do with the construction of the project, during the cessation period?

A. No, Hutchinson and the administrative force at New York City didn't work on drawings. The drawings were prepared by Cooper's force in New York City and Sander-son and Porter's force in New York City.

Q. And your position is that Hutchinson and his administrative force performed no work in connection with any of those drawings? A. Except as the drawings were completed they may have passed through their hands. They probably did. They might want to inspect them.

[19598] Q. What would these pass through their hands for? For checking, would they not, and correlating them, and O. K.'ing them? A. Not necessarily, no.

Q. What do you mean by "not necessarily"? Do you know, as a matter of fact, that Hutchinson and his administrative force never passed on the advisability of these drawings, and never tried to correlate them? A. I have seen no indication that Hutchinson and his administrative force in New York passed on those drawings in detail after Cooper's force had finished with them.

Q. Did they pass on them in any way?

MR. GOLDBERG: Just a minute. Let the witness finish.

A. I have seen indications that some of those drawings passed through the hands of Hutchinson. What he did with them, I don't know. But it is not my understanding that he actually inspected those drawings for final approval. As a matter of fact, it would be very improbable that he did inspect all the detailed drawings for final approval. All he would handle would be the general over-all plan.

By MR. KING:

Q. Do I understand you to mean that you found nothing that would indicate whether Hutchinson and his administrative force passed on these drawings or not?

[19599] A. To the extent that I have mentioned that some of them passed through their hands, I have seen that.

Q. Will you please turn to transcript page 19,512?

A. Yes, sir.

. . .

[19603] By MR. KING:

Q. Mr. Newlands, I refer to the question at line 24, transcript 19,517, where, in effect, you say that commodity price indices are not an accurate measure of the current price of replacement parts for old equipment. I want to know what you consider to be an accurate measurement.

A. The actual price of the part itself. The market [19604] price.

Q. Suppose the duplicate of the part is not available.

A. Then, I wouldn't attempt to capitalize anything in connection with a debatable item of this sort. That merely compounds a felony.

Q. You mean because there is no duplicate item available, you quit; is that right? A. No. I mean that items of this sort are of debatable worth in any case, as a capital item. That if you haven't got exact figures to indicate what portion should be capitalized, then, no portion should be capitalized.

Q. So your position is that if it should happen that there is not any duplicate of the original part available, you shouldn't capitalize anything; is that right?

. . .

A. I didn't say that. I said that these items are debatable capital items in any case, and that where you cannot have exact figures, you shouldn't attempt to capitalize any portion of them.

By MR. KING:

Q. Mr. Newlands, will you turn to page 50 of the Uniform System of Accounts of the Commission? I direct [19605] your attention to the last three lines of subparagraph 3 on page 50 reading as follows:

"The excess cost of the replacement over the estimated cost at current prices of replacing without betterment, shall be charged to the appropriate electric plant account."

What do you understand the words "the estimated cost at current prices" to mean? A. That means the cost of replacement, using the actual cost of the old parts, plus the estimated labor cost of replacing, which would be very close to the cost of putting in, of course, the new part. That would be an exceedingly close approximation. It wouldn't correspond to price indices, however.

Q. What if a duplicate part were not available? What would this mean.

[19606] A. I have already stated my answer to that. I believe that in that case you shouldn't attempt to capitalize any portion of it.

By MR. KING:

Q. Do you think that is what the language I have just quoted you on page 50 of the Uniform System of Accounts means?

[19607] A. Yes, in my opinion, the estimated cost, under this provision, would have to be based on facts, no such a thing as price indices. And, as I mentioned before, the labor cost of actually replacing the new item would be a good estimate of the cost of replacing the old. But price indices are so far away from actual facts that they do not come under this estimated cost.

By MR. KING:

Q. Do the words "estimated cost" mean to you: facts?

A. It means they have to be related to facts, very [19608] closely.

By MR. KING:

Q. You have examined the K-1 schedules attached to Exhibit 320, have you not, Mr. Newlands? A. Yes, I have looked them over.

Q. Do you know whether there is any labor cost capitalized in the K-1 schedules? A. I wouldn't know unless I examined it again. I didn't examine it with that specifically in mind.

[19609] Q. Now, I want to find out what is the difference between your idea of maintenance and repair and your idea of betterments.

A. A betterment would be such an alteration in a machine that it resulted in a substantial change in identity in the machine or the part, resulting in greater capacity, and so forth.

By MR. KING:

Q. Would you mind explaining what you mean by a change in identity? A. I mean that usually the function of the machine would have to be changed to some extent.

Q. The function? A. That is right.

Q. Can you give an example of what you mean? A. Well, adding a topping unit to a steam turbine would be a change of function.

Q. Will you turn to the Uniform System of Accounts of the Federal Power Commission, and find where there is [19610] any reference made to a change in function in connection with betterments?

[19611] TRIAL EXAMINER: In your testimony on page 19,517, Mr. Witness, did you have in mind the instruction referred to by Respondents' counsel on page 50 of the Uniform System of Accounts?

THE WITNESS: No, I had in mind the actual accounting practices and theory at that time. That is what governs these actions back there.

TRIAL EXAMINER: Where did you find the theory and practices of that time?

THE WITNESS: From my own experience, from accounting textbooks, from talks with other accountants who have done the same type of work.

TRIAL EXAMINER: As of what time are you referring to?

THE WITNESS: As of the time when the transactions on Schedule K-1 took place.

TRIAL EXAMINER: When was that?

THE WITNESS: From about 1924 to 1931, most of them, I believe.

TRIAL EXAMINER: 1924 to 1931?

THE WITNESS: Yes.

[19612] TRIAL EXAMINER: Well, does the instruction on page 50 accord with the accounting practices and principles of that time?

THE WITNESS: To some extent; not entirely. There was considerable variation in the practice, allowable practice, at that time.

TRIAL EXAMINER: What is the Respondents' theory in connection with the cross-examination that is now proceeding with reference specifically to this matter under discussion?

MR. KING: First of all, to show that the witness is clearly wrong in his conclusions, that the items in the

K Schedules represent repair and maintenance. That is his conclusion advanced for the first time in rebuttal and we are entitled to show that that is an erroneous conclusion, and we can't get to that point—

TRIAL EXAMINER: According to what standards?

MR. KING: That is what we are trying to find out. We can't get to that point until we find out this witness' conception.

TRIAL EXAMINER: Well, are you going on the assumption that the standards are contained in the Uniform System of Accounts?

MR. KING: No. Partially. I am asking him what he knows about the Uniform System of Accounts, and I was going [19613] to ask him the question that your Honor has already asked him, whether the accounting practice was different then from what it is now, and, as I understand it, he says no.

TRIAL EXAMINER: I think you had better develop a foundation for this.

MR. KING: I will be glad to.

By MR. KING:

Q. Mr. Newlands, will you turn to page 10 of the Uniform System of Accounts? In the back of the book, under this road and equipment, ICC, Section. Do you have that before you? A. Yes.

Q. What is the date of that, do you know? A. No, I don't.

Q. You have that on page 7, do you not, May 19, 1914?

A. There is an introductory letter on page 7 which is dated May 19, 1914, which apparently concerns this system of accounts.

By MR. KING:

[19614] Q. Page 5 of the Uniform System of Accounts contains the order of the Interstate Commerce Commission adopting these rules, does it not? A. Page 5?

Q. Yes. A. Yes, that is right.

MR. GOLDBERG: I wish you would be more specific about saying page 5, because—

MR. KING: Page 5 of the back part of the Uniform System of Accounts, dealing with the ICC classifications.

A. Yes.

MR. GOLDBERG: Let's call it Appendix Roman II.
By MR. KING:

Q. That was dated May, 1914; isn't that right? A. That is right; May 19, 1914.

Q. Now, the title of the classification appears at the beginning of the table of contents, does it not? A. What page is that?

Q. Page 1 of the ICC classification. A. Yes, page 1 shows the title of the classification.

Q. And it also says "Issue of 1914", does it not? A. That is right.

Q. Will you again turn to page 10 of the ICC classification, the third paragraph from the bottom, beginning with the word "Betterments." Do you have that before you? [19615] A. Yes.

Q. That states, does it not, Mr. Newlands, "Betterments are improvements of existing facilities through the substitution of superior parts for inferior parts retired" and so forth? That is correct, is it not?

By MR. KING:

Q. Mr. Newlands, was that a correct accounting provision at the time that you have just mentioned, 1924 to 1931?

[19616] A: It was an accounting principle authorized by the Interstate Commerce Commission and was correct in that regard. There were, of course, other ideas as to what should be capitalized as betterments—very many different opinions. This is only one.

By MR. KING:

Q. Now, will you turn—you say this is only one?

A. That is right.

Q. Name some others that are different from this.

MR. GOLDBERG: I object to that, Mr. Examiner.

TRIAL EXAMINER: If the witness knows, he may answer.

A. It was a general practice during that period to charge the betterments of the nature listed on K-1 to expense. They occurred because of repair and maintenance. Actually, the machine required repairing.

By MR. KING:

Q. I asked you to refer to some authority, not general practice. Can you refer to any authority? Of any kind? Accounting, legal?

MR. GOLDBERG: Right this minute?

MR. KING: Yes.

A. Which gives a different definition of betterments?

By MR. KING:

Q. Yes, than that contained on page 10 of the ICC [19617] classification? A. Yes, I believe Kester probably contains a different definition.

Q. Kester? A. Yes.

Q. Any others? A. I imagine that a great many textbooks written back then would contain a somewhat different definition than this of betterments.

Q. What is the name of the textbook written by Kester that you referred to? A. "Advanced Accounting."

Q. Do you have a copy of the Uniform Classification of Accounts for Electric Companies, prescribed by the Public Service Commission of Pennsylvania, before you? A. Yes, I have a copy.

Q. Effective January 1, 1919? A. Yes.

Q. Do you have that? A. Yes.

Q. Will you turn to page 43, please? A. I have it.

Q. About the sixth paragraph from the top it reads as follows, does it not, Mr. Newlands: "Betterments are physical changes in structures or equipment, the object [19618] of which is to make the structure or equipment affected more useful or of greater capacity than they were at the time of their original installation or acquisition;" is that correct? A. That is correct, and that requires interpretation by the persons who are making the entry.

Q. Do you know whether this rule that we have just discussed, in the Pennsylvania System of Accounts, effective January 1, 1919, was in effect at the time the items in connection with the K Schedules were entered on the books of Penn Water? From 1924 to 1931, I believe is the period. A. Yes, and I believe the entries on the books were made in accordance with this definition. It is a question of managerial judgment.

Q. And that is the basis upon which you have concluded that these items in the K Schedules cannot be corrected; is that correct? A. I decided that the disposition made on the books had been done properly in the exercise of managerial judgment under the system of accounts in effect, and that cannot now be changed.

[19619] Q. Which system of accounts, in effect, are you referring to? A. The Pennsylvania system of accounts, for one.

Q. If they were not done in accordance with the Pennsylvania system of accounts referred to, is it your opinion that the entries could be corrected? A. No, I would say they still could not be corrected because it was a general

practice at the time to handle items of this nature the way the Company did.

Q. In other words, as I understand you, you take the position that even though the uniform system of accounts in effect at the time directs a Company to proceed one way, that if the Company does not proceed in that fashion they still cannot remedy the error? A. That is correct, if your assumption were correct.

Q. Then it is your position that once the entries are made they never can be corrected, under any condition; is that right? A. If they are made in accordance with accepted accounting practice they cannot be corrected later. That is correct.

Q. And there can be accepted accounting practices contrary to the provisions of the uniform system of accounts, under which a Company operates; is that correct? A. There can be, and a great many times the Public [19620] Service Commissions allow those entries, even though they are in contrast with what the uniform system of accounts says.

Q. Mr. Newlands, a little while back you described betterments as resulting in a functional change of a particular item. Does the word "functional" appear either in the ICC classification, attached to the FPC system of accounts, or in the uniform system of accounts effective January 1, 1919, of the Pennsylvania Commission?

[19621] THE WITNESS: Limited to those two paragraphs that are already in the record I think the word "functional" does not appear in those two definitions.

By MR. KING:

Q. Mr. Newlands, when did you first study accounting?

THE WITNESS: About 1920, I guess.

By MR. KING:

Q. Did you begin the practice of accountancy in 1920? A. No, I was studying it in school at that time.

Q. For what period of time between 1924 and 1931 were you actively engaged in the practice of accountancy? A. From about 1922 on, I believe.

[19622] Q. And in what capacity was your practice, from 1922 to 1931?

THE WITNESS: Prior to 1928 it was in a bookkeeping capacity for a plant, including the construction of the plant. After that it was it was in public accounting, until I came with the Commission.

By MR. KING:

Q. Mr. Newlands, do you have Exhibit 320 before you? A. Yes, I do.

Q. I direct your attention particularly, Mr. Newlands, to the K-1 Schedule. I believe they start at page 35 of Exhibit 320. A. Yes.

Q. Do you have that before you? A. Yes.

[19623] Q. Will you refer to Item 2 of the K-1 Schedule? Do you have that before you? A. Yes.

Q. Is it not a fact that the new copper cooling coils mentioned there are more durable than the brass coils which were replaced? A. I don't know. And at the time this entry was made I don't believe the Company was sure that it would be more durable. They were making an experiment.

Q. If you don't know, how do you know what the Company knew? A. The Company probably wouldn't know unless they had used copper coils. The Company started out using galvanized iron coils. They changed to brass and then to copper. They were developing their experience in regard to these transformer coils.

Q. Would you assume the Company changed to copper without knowing that that was beneficial? A. I assume they hoped it would be beneficial.

Q. Then your answer is that you don't know, as I understand it--whether it knew that copper coils were more

durable than the brass coils; is that correct? A. That is right.

Q. Now, will you refer to Item 3? Isn't it true that the copper cooling coils there mentioned, in Item 3, are more, [19624] durable than brass coils, which were replaced, if you know? A. I don't know.

Q. Now, will you refer to Item 4? Do you know whether the copper cooling coils referred to in Item 4 are more durable than the brass coils which they replaced? A. No, I don't know that.

Q. Will you please refer to Item 5? Do you know whether the copper cooling coils mentioned there were more durable than the brass coils which they replaced? A. No. And I might say that even though they were proven more durable my treatment of these items would be the same. They are a proper maintenance and repair item.

Q. Now, Mr. Newlands, still referring to Item 5, isn't it a fact that replacement of the 10,000 kva coil with 15,000 kva coils represents a 50% increase in the capacity of this transformer? Do you know? A. If the repair were made correctly I should imagine, from the description given here, that it probably would result in a 50% increase in capacity.

Q. What do you mean by "repair," in your last answer? A. I mean that the coils were being repaired, at least partly, because they required repairing. They required replacement. When the replacement was done a 15,000 kva winding was put in the place of the former 10,000 kva winding.

Q. Will you refer to Item 6, still in the K-1 Schedule? [19625] Do you have that before you? A. Yes.

Q. Isn't it a fact that the new cab there referred to provides better visibility than the old one—if you know? A. No, I don't know. And it would make no difference to my treatment.

Q. Is it also a fact that the new controller is more useful than the old one—if you know? A. I don't know that

and it would make no difference in my treatment. These are all minor items.

Q. Will you please refer to Item 7? Isn't it a fact that $\frac{3}{4}$ -inch pipe made this high-tension bus more durable than the one-half inch copper tubing which was being replaced? A. No, I don't know, and it would make no difference in my treatment.

Q. Will you please refer to Item 8? A. Yes.

Q. Do you have that before you? A. Yes.

[19626] Q. Would your answer be the same with respect to Item 8 as it was with respect to Item 7?

MR. GOLDBERG: In what regard, so we will know exactly what it is you are referring to?

MR. KING: We apparently can't shorten it, then. I will ask the same question.

MR. GOLDBERG: I am willing to cooperate to shorten it. I am trying to be certain that when you get an answer we will know exactly what the answer means.

MR. KING: My question is: If I asked the witness the same question with regard to Item 8 as I did with regard to Item 7, whether his answer would be the same.

MR. GOLDBERG: The point is that in regard to Item 7 you asked if the high-tension bus had become more durable. That might apply to Item 8, but it wouldn't apply to Item 9 and Item 10. And as I understood the Examiner's wishes—

MR. KING: I am just talking about Item 8.

MR. GOLDBERG:—some general question of principle is involved.

TRIAL EXAMINER: The witness may answer.

THE WITNESS: Your question is whether the new rail would be more durable than the old?

By MR. KING:

Q. No, I am talking about Item 8 now. It is similar to Item 7? [19627] A. No, I don't know that, as a matter of fact, and it would not make any difference in my treatment.

Q. Now, with regard to Item 9, do you know whether it is a fact, Mr. Newlands, that 85-pound rail was more durable than the 60-pound rail? A. I should assume that that would be the fact.

Q. And also has a greater carrying capacity, does it not? A. I would say that you could run heavier trains over an 85-pound rail.

Q. Now refer to Item 10. Do you know whether or not it is a fact that the replacement of 800 Amp. parts with 1200 Amp. parts resulted in increasing the current-carrying and interrupting capacities of this oil circuit breaker referred to? A. The new parts themselves would carry greater amperage. I don't know whether the oil circuit breaker would. It would depend on the other parts of the breaker.

Q. Now, will you refer to Item 11? Do you know whether or not it is a fact that the new lower pedestal bearings for the operating shaft is more durable than the old one which was replaced? A. No, I don't know that as a matter of fact.

Q. Isn't it a fact that the rubber guide bearings with split asc alloy sleeve is much more durable than the old [19628] lignum vitae bearing and solid sleeve which it replaced? A. I don't know that to be the fact. I think I have seen some information in the Company's files to indicate they had better luck with the replaced bearings. It would make no difference in my determination, however.

Q. With regard to Item 12, do you know whether it is a fact that the aluminum compression joints eliminated the excess heating which had been experienced with the old twisted splices? A. No, I don't know that as a fact, and it would make no difference in my determination.

* * *

By MR. KING:

Q. Will you turn to Item 13, Mr. Newlands? Would your answer be the same as to Item 13 as it was with reference to Item 11? A. Yes.

[19629] Q. Would your answer be the same as to Item 14 as it was with respect to Item 11?

MR. GOLDBERG: That is in connection with increased durability.

MR. KING: That is right.

THE WITNESS: Yes.

By MR. KING:

Q. Will you please refer to Item 15? Would your answer be the same with respect to Item 15 as it was with respect to Item 10? A. So far as the second part of that Item 15 is concerned, yes.

Q. Please refer to Item 16. Do you know whether or not the new design of governor-restoring mechanizing system was more efficient than the old design equipment which was replaced? A. No, I don't know that as a fact, and it would have no effect on my determination.

Q. Will you please refer to Item 17? Do you know whether or not it is a fact that the change in connection with Item 17 resulted in increased capacity, as is stated in the description of this item? A. No, I don't know that that was a fact, and it would not change my determination.

Q. Now, would you turn to Item 18? Would your answer [19630] with respect to Item 18 be the same as it was with respect to Item 13? A. Yes.

Q. And the same for Item 19? In other words, your answer would be the same as to Item 19 as it was as to Item 13? A. Yes.

Q. Mr. Newlands, do you, as a result of your investigation, dispute any of the facts set forth in the items of the K-1 Schedules?

. . .

[19631] TRIAL EXAMINER: Have you checked the original job orders?

THE WITNESS: Not with these descriptions; no, sir.

MR. KING: Then you don't know if they are correct or not.

THE WITNESS: I was in Washington when this was presented to us, and I haven't been back to Baltimore since.

By MR. KING:

Q. Well, didn't you check the job orders during all the time you spent in Baltimore in preparation for this case?

A. I didn't have this to compare with the job orders.

Q. That isn't what I asked you. You had the job orders, didn't you? A. We had the job orders.

Q. Didn't you check them? A. But I didn't check them in comparison with this. That is what you are asking me here.

Q. Did you check them at all? A. Yes.

Q. Did you make any notes as a result of that check?

A. I made some notes; yes.

Q. Where are they? A. Most of them are here in Washington.

Q. Do you have them with you? A. I think some of them are.

[19632] By MR. KING:

Q. How did you characterize the items as maintenance and repair, Mr. Newlands, without some knowledge of the facts contained in the job orders? A. I have knowledge of some of the facts contained in the job orders.

Q. You do? A. I know that all of these items represented repair and maintenance and were so charged on the books.

Q. Now I ask you, in the light of the knowledge that you have, to point out to me where, in the K-1 Schedules,

there is a misdescription in connection with the facts, as to each one of the items.

[19633] THE WITNESS: I don't have such a detailed knowledge of all that is in these job orders—sometimes there are 20 or 30 pages—to enable me to determine whether the description shown here is exactly as is shown in the job order, or whether there isn't some further information in the job order which would make an adjustment of this description necessary.

By MR. KING:

Q. Now, will you turn to the K-2 Schedules, Mr. Newlands? A. Yes, sir.

Q. Will you give us your distinction between maintenance and repairs and additions? A. Additions is the outright addition of a new piece of property.

Q. New piece of property? A. That is right. Maintenance and repair is the process of keeping the present property in good operating condition, including replacements, alterations, and things of that nature.

Q. Is a topping unit an addition, Mr. Newlands, in your [19634] opinion? You referred to a topping unit a while ago. A. It would be a proper capital item.

Q. Is it an addition? A. Yes, it could be characterized as such.

Q. Now, will you refer to Item 1 in the K-2 Schedule? Do you know whether the guide vanes for this unit had been equipped with bushings of any kind before the work referred to here was done? A. I am not certain, but I know that the work that was here done was necessary because wear of the parts had made bushings necessary. And that is a customary repair job. It is done every day.

Q. Do you know whether or not the fulcrum pins were equipped with any kind of sleeve before the work referred to in this item was done? A. I don't know whether this particular item had sleeves prior to this time, but it is a

repair job because it is taking up wear on the item and bushing is necessary in order to do the job.

Q. Will you refer to Item 4? A. Yes.

Q. Do you know whether or not it is a fact, Mr. Newlands, that the flashboard sockets had previously been provided on 2'6" centers, over the entire crest of the dam, with the exception of the distance of 300 feet, over which they were [19635] on 5' centers until the remaining 60 sockets were installed on this job? A. No, I don't think that is correct. My information is that back in 1911 and 1912 the sockets were on two and a half feet centers the entire crest of the dam. Changes have taken place in those sockets in the intervening time. Portions of the crest of the dam have been repaired, for instance, which might mean elimination or replacement of those sockets.

Q. Do you know that to be a fact? A. I know that to be a fact—that a portion of the crest was repaired, including repairing of sockets.

Q. Will you turn to Item 7 and tell me what equipment described there could be considered as being a replacement of previously existing equipment, or as representing the cost of repairs to the existing equipment? A. This represents minor equipment attached to an existing unit and which the management, in its discretion, decided to charge to repairs and maintenance. That was customarily done during this period.

Q. But it is new equipment that was not theretofore installed; isn't that right? A. I don't know that as a fact. That is the claim that is made here. It may be so. I don't know.

Q. Then you don't know that it is incorrect, either, do you? The statement made here? A. No, I don't know that this statement is incorrect.

[19636] By Mr. KING:

Q. Mr. Newlands, will you please turn to Item 9 on the K-2 Schedule? A. Yes, I have that item.

Q. Would your answer in connection with this item be the same as your answer in connection with Item 1? A. Yes, except that in some of these cases I think I could determine they had not been bushed before; I am not sure which one. That was part of the question you asked me.

Q. Would your answer to Item 12 be the same as your answer with relation to Item No. 9? A. Yes.

By MR. KING:

Q. Will you turn to Item 14? Do you know how many cables were used for the output of each of these exciters prior to the time the work described under this item was done? A. Yes, I believe it was two cables.

Q. Does that mean two per leg, four per exciter? A. I believe so.

Q. How many cables were used for each of these exciters after the work referred to in this item was done? A. The job order indicated that in repairing these cables an additional lead was put in when replacing the two older [19637] leads per leg.

Q. This fact resulted in an increase in capacity of the cables, did it not, speaking of this work? A. It did not increase the capacity of the individual cables, no. Current carrying capacity of three cables would be more than two cables if that is what you mean.

Q. That is what I mean.

Now, will you refer to Item 16? A. I have that item before me.

Q. Would your answer to that be the same as it was on Items 1 and 9? A. Yes.

Q. Will you refer to 17? Would your answer be the same as to Items 1 and 9? A. Yes, with this exception: That this present job order also covers installing washers to take up the play underneath the guide vanes but it is a similar operation to rebushing; in other words, it is something inserted to take up the play. In this case it happened to be stainless steel.

Q. Did I understand you to say rebushing? A. Well, I am not certain whether this particular one covered rebushing or whether this was a first installation of bushings and washer.

Q. Why did they bore the vanes if it was rebushed? A. Well, that might have been necessary if you put in [19638] a larger sized bushing. My impression is that this was the first bushing. I just am not certain.

Q. Will you refer to Item 21? A. Yes, I have that item.

Q. Do I understand you to say that additions made to leased property were charged as operating expense? A. Redecorating rooms on leased property is very often and very properly charged to expense immediately. As a matter of fact, this company has done it in later periods as they did here.

. . .

By MR. KING:

Q. Does this represent redecorating? A. Yes, to some extent.

Q. What do you mean to some extent? A. Redecorating covers, putting in walnut paneling, Cello-tex ceiling, linoleum, drapes, and so forth. That is commonly called redecorating a room.

Q. They were not there before, were they, the items you just spoke of? A. The walls were there; the ceiling was there and the floors were there.

Q. Panels, linoleum and Cello-tex ceiling were not there before, were they? [19639] A. No, but there was a wall there.

. . .

[19645] By MR. KING:

Q. Will you refer to transcript 19,506, your answer at the bottom of the page beginning with line 19? A. Yes, sir.

Q. Does your answer mean that flashboards were replaced as of March 1916? A. No, they started a month or two later, I believe, to work on replacement of the flashboards.

Q. A month or two later? A. I believe so. I do not have the exact time.

Q. Will you turn to page 62 of the schedules of Exhibit 51? You state there that the flashboards were not replaced [19646] until July 1917. A. That is right. They were not erected until July of 1917 but they started in June or July of 1916 to prepare the flashboards. They were going to experiment with a new swing gate and it required fabricating an entire new set of flashboards for that purpose.

Q. Will you refer to transcript 19,510? Do you have that before you? A. Yes.

Q. Did you make any investigation to determine the length of time over which the negotiations extended prior to the purchase of the property after 1916, that is the Woelpper and other properties?

. . .

THE WITNESS: It was my understanding the property was purchased in March of 1916. There would have been no negotiations necessary after that.

. . .

By MR. KING:

Q. Did you make any investigation as to any properties [19647] other than the Woelpper property as to the length of time over which negotiations extended prior to purchase?

. . .

THE WITNESS: I made no investigation in the case of each separate piece of property to find out exactly what period of time the negotiations covered. I did find in going through the accounts indications of the length of time. I made no attempt to note them, however.

. . .

By MR. KING:

Q. Did Mr. Bortner furnish you at your request a memorandum dated May 22, 1925? A. Is that one that is in the record? Q. No, it is not in the record. It is a list of docket entries involving a particular case. A. I believe it is over in a book on the table. May I look at that?

Q. Yes, indeed. A. Yes, I have a memorandum furnished by Mr. Bortner dated May 22, 1945, headed—

[19648] Q. That consists of how many pages? A. Four.

Q. Mr. Bortner also furnished you a subsequent memorandum, Mr. Newlands, to the one we have just been discussing, did he not, dated May 24, 1945? A. That is correct.

Q. How many pages are there in that memorandum? A. Five pages.

Q. What does that memorandum indicate, the one dated May 24? A. It is a description of various cases filed against Penn Water.

Q. And it indicates the length of time those cases pended, does it not? A. In some instances, yes. I have not checked the whole thing.

. . .

[19649] TRIAL EXAMINER: The documents referred to may be marked respectively Exhibit 451 and 452 for Identification.

. . .

[19650] By MR. KING:

Q. Did Mr. Bortner give you a memorandum showing docket entries in the case of Wilson Woelpper v. Penn Water and Power Company and Lancaster and York Furnace Street Railway v. Penn Water as well as Colemanville Water & Power Company v. Penn Water, Vandersloot against Penn Water, and Tripple v. Penn Water and Shoss v. Penn Water.

I will show you the copies we have. Maybe you can ascertain it from that.

[19651] By MR. KING:

Q. You have them? A. Yes.

(The document referred to above was marked Exhibit 453 for Identification.)

[19656] By MR. KING:

Q. Assume that the cement which we discussed yesterday was insured against fire loss, would the insurance premium be a proper charge to construction, in your opinion?

[19657] THE WITNESS: During the original construction period that would be a proper charge to construction where it was obvious that the cement was going to be used for construction purposes, and nothing else.

By MR. KING:

Q. If the company takes the risk of the entire loss itself, you would not allow the loss as a construction cost, is that correct?

MR. GOLDBERG: By that you mean, by "taking the risk itself" you mean they do not take out insurance on it?

MR. KING: Correct.

THE WITNESS: That is right. I think that that is one of the things that a company should guard itself against. Of course, the circumstances in this case are a great deal different. The cement that we are talking about here, as is indicated clearly in the records had deteriorated and it is also indicated that the company did not consider that the fire had destroyed that cement.

By MR. KING:

Q. You think that a claim for allowance to the insurance company for cement damaged by fire is an indication that the company did not consider the cement was destroyed by fire? A. That is not what I said. I said the correspondence indicated that the company agreed with the insurance [19658] company that the fire had not destroyed the cement.

Q. Do you know, Mr. Newlands, as a result of the fire loss that actually the company recovered a portion of the loss from the Insurance Company? A. I know they recovered a portion of the total claim made against the insurance company.

Q. Now, Mr. Newlands, if the company were in commercial operation and had a loss due to bad cement, would such a loss be a proper charge to operating expenses?

. . .

THE WITNESS: While I stated yesterday "operating expenses", it would not be in the classification of operating expenses as operating expenses are defined in the uniform system of accounts. It is not a strict operating expense but it would be charged to expenses.

By MR. KING:

Q. Mr. Newlands, did you ever examine the original stock certificates of the McCall Ferry Power Company?

. . .

[19659] THE WITNESS: Yes, we examined what stock certificates were available.

By MR. KING:

Q. The stock certificates that you examined were endorsed in blank? A. I do not recall.

Q. Do you know the name of the holder of the original six shares referred to by you on page 19,495 of the transcript? A. Did you say do I know the name of the owner?

Q. The original holder and owner of the six shares.
A. The names on the certificates are the names of the five nominees of Hutchinson. The shares were owned by Hutchinson according to the records.

Q. How about the other four shares? A. That is true of all ten shares, they were in the names of the five nominees.

Q. Do you know that the shares were endorsed in blank? A. I do not recall that but I would assume that to be the case since the shares were delivered to Hutchinson, although they were in the names of those five individuals.

[19660] Q. Do you know one of the certificates which was endorsed in blank bore a date? A. They all bore dates.

Q. I am talking about a date for transfer, now. A. Well, there—

Q. On the back of the certificate—the date is on the back of the certificate, do you recall that?

MR. GOLDBERG: You mean was there a date on the back of the certificate?

MR. KING: That is what I am asking him.

THE WITNESS: No, I do not recall that detail.

By MR. KING:

Q. Now did you examine and consider in reaching your conclusions as to original cost, Exhibits 451, 452 and 453 for Identification?

THE WITNESS: Yes, this is part of the material.

MR. KING: That you examined and considered?

THE WITNESS: That is right.

By MR. KING:

Q. In your consideration of Exhibit 452 did you note that on the second page thereof Mr. John E. Malone's name [19661] appears as one of the counsel for the company in the John Edward Vandersloot v. Penn Water and Power

Company case? A. Yes, in the case of Vandersloot v. Penn Water and Power Company, a complaint filed because of flooding-damage claim—John E. Malone is mentioned as one of the counsel, with Stewart & Gerber for Penn Water and Power Company.

By MR. KING:

Q. I show you Exhibit for Identification 453 and ask you if you did not, in considering this exhibit see the name of Mr. Malone, one of the counsel in the Wilson Woelpper v. Penn Water and Power Company case, is that right? [19662] A. That is correct, but in that case I happen to know that Hensel handled that case alone entirely.

Malone came in only after Hensel died.

Q. You say Malone came in after Hensel died? A. Hensel died near the end of that case.

THE WITNESS: That states the appearance of W. U. Hensel in writing filed.

By MR. KING:

Q. At the bottom of that same page under date of March 4, 1915, you note do you not the appearance of John E. Malone and John A. Newman, Esquire, in writing filed for defendants. A. Yes, sir.

Q. On the third page of the exhibit Mr. Malone's name appears as counsel for the Penn Water and Power Company in the case of Lancaster and York Furnace Street Railway Company v. Penn Water and Power Company, is that correct? A. That is correct.

Q. His appearance was entered according to this exhibit July 27, 1918; right? A. Yes, sir. That case was never tried.

Q. The suit was dismissed October 7, 1921, is that right? A. Yes, sir.

Q. On the next page of this same exhibit for [19663] identification Mr. Malone's name appears as attorney for

the Pennsylvania Water and Power Company in the case of Colemanville Water and Power Company v. Penn Water and Power Co., is that right? A. Yes, sir.

Q. And his appearance was entered on July 27, 1918, right? A. Yes, sir, and that case never came to trial.

Q. And that case was settled on October 7, 1921, is that right? A. Yes, sir.

Q. The next page of this same exhibit, namely 453, indicates that John E. Malone was attorney for Penn Water in the case of John Edward Vandersloot v. Penn Water and Power Company? A. Right.

Q. And Mr. Malone's appearance was entered September 16, 1918? A. That is correct, and that case never came to trial.

Q. And the docket entries show that case was settled October 8, 1921? A. Right.

Q. In the next case the exhibit indicates that Mr. Malone was attorney for the company in the case of Alice M. Tripple v. The Penn Water and Power Company, is that right, sir? A. Yes, sir.

[19664] Q. And Mr. Malone's appearance was entered September 13, 1918? A. Yes, and the case never came to trial.

Q. And the case was settled October 7, 1921? A. That is correct.

Q. When you say the cases never came to trial are you trying to indicate the lawyer performed no service? A. I am indicating that the lawyer did not perform as much service as he otherwise would.

Q. You mean if it went to trial? A. That is right.

Q. In the next case, this same exhibit indicates Mr. Malone's appearance was entered for the company in the case of Annie W. Shoff v. Penn Water and Power Company, is that correct? A. Yes, sir.

Q. Mr. Malone's appearance was entered April 8, 1929, is that correct? A. That is correct, and that case never came to trial.

Q. That case was settled October 4, 1933? A. That is correct.

[19665] By MR. KING:

Q. You testified concerning Mr. Bushong's services in connection with the organization of Holtwood Power Company, did you not? A. That is correct.

Q. That appears on transcript page 19,515? A. Right.

Q. You stated, did you not, that you found no evidence that Bushong organized Holtwood Power Company, is that correct? A. Yes, sir.

Q. And by the statement that you found no evidence that Bushong organized the Holtwood Power Company you meant, did you not, that in your opinion there was no evidence indicating that? You were not attempting to pass on the evidence as a matter of law, were you? A. No, the record indicated to me that the lawyers had [19666] organized the company.

Q. Did it indicate to you that Mr. Bushong had done nothing in connection with the organization of the Holtwood Power Company? A. Nothing of any moment. He did some clerical work in that connection which any officer or employee might do. For instance, the Lancaster Office paid for the recording of the charter and some of the other miscellaneous documents in that connection. Also Mr. Bushong was used as a go-between sometimes in transmitting requests to Malone in Lancaster but there is no evidence that he did any real work in connection with that organization.

Q. What do you mean by real work? A. That he had nothing to do with the organization itself. This incidental clerical work does not constitute organizing a company.

Q. Clerical work, in your opinion, does not constitute real work?

THE WITNESS: Not of this nature.

By MR. KING:

Q. I show you a copy of a letter dated June 25, 1924 to Bushong from Mr. John A. Walls and ask you to look at that and tell me if you have seen that letter in connection with your investigation in connection with this case. I am going [19667] to ask leave to have it photostated but I have one extra copy for the Examiner. A. No, I have not seen this letter but it agrees with the records I have seen that Mr. Bushong's work was limited to mechanical work of a clerical nature.

Q. In other words, the letter accurately depicts the facts, is that correct? A. Yes, I believe it does.

TRIAL EXAMINER: The document handed the reporter may be so marked.

(Exhibit No. 454 is marked for Identification.)

By MR. KING:

Q. Mr. Newlands, I show you a copy of a letter dated June 28, 1924 to Mr. J. A. Walls from Marvin E. Bushong. I ask you to examine that letter and tell us whether or not you took that into consideration in connection with your investigation in this case and whether or not you have ever seen it before?

[19668] A. No, I have never seen it before so I did not take this particular letter into consideration, but I have seen most of the information that is here in the records, that is, regarding advertising in the papers and things of that sort.

Q. The letter correctly, in your opinion, reflects the fact? A. Yes, it reflects the fact that Mr. Bushong did some clerical work.

Q. That is not the question I asked you. I asked you if the letter correctly reflects the facts as you understand [19669] them.

TRIAL EXAMINER: He is asking as to whether those facts set forth in the letter are in accord with the facts you found in the files, without the supplementation of your opinion as to what the facts mean.

* * *

THE WITNESS: Yes, I would say that that was so.

MR. KING: May we have the letter just referred to to Mr. J. A. Walls from Mr. Marvin Bushong dated June 28, 1924, marked for Identification as Exhibit 455?

TRIAL EXAMINER: It may be so marked.
(Exhibit No. 455 is marked for Identification.)

* * *

[19670] By MR. KING:

Q. Exhibit 455 on page 3, the last paragraph, states as follows, does it not, Mr. Newlands?

"There will, in all probability, be no necessity for a conference with Judge Stewart because Mr. Zimmerman will handle the work before the Public Service Commission and in the other offices in Harrisburg in Mr. Malone's absence."

That is correct, is it not, Mr. Newlands? A. That is what the letter states.

[19671] Q. You have heretofore stated on page 19516 of the transcript that you could find no evidence indicating what Mr. Zimmerman's charge for legal services represented, is that correct? A. That is correct. This is the first indication I have seen on that, of what Mr. Zimmerman did during that period. I presume he did other things than this.

* * *

[19695] Q. Mr. Newlands, will you refer to Exhibit for Identification 445? A. I have that.

Q. The second paragraph of that exhibit indicates that Mr. Bortner furnished you a memorandum dated May 23, 1945, [19696] does it not? A. Yes, sir.

Q. I show you a copy of that memorandum and ask you to examine it and tell me if that is an accurate copy of the memorandum furnished by Mr. Bortner to you? A. I will have to get another book over here.

Q. Did you find it? A. Yes, sir.

Q. Is the copy I showed you an accurate copy? A. From a hasty glance, it seems to be a correct copy.

Q. Did you take the memorandum that we are discussing into consideration in connection with your determinations in this case? A. Yes.

TRIAL EXAMINER: The document referred to may be marked for Identification.

(Exhibit No. 456 is marked for Identification.)

[19762]

RE-DIRECT EXAMINATION.

By MR. HALL:

Q. Mr. Newlands, yesterday Mr. King questioned you regarding an insurance claim for fire losses in 1911. What was the total amount of Penn Water's claim as respected that schedule which he showed you? A. The total amount of the claim was \$24,469.50.

Q. What amount did Penn Water receive in settlement of its total claim? A. \$18,817.

Q. Was the total claim of \$24,469.50 made up of numerous items? A. Yes, sir.

Q. What was the amount claimed by Penn Water for 21,000 bags of Union Cement? A. \$5,460.

Q. Will you refer to page 19658 of the transcript, and specifically to your answer contained in lines 5 and 6? A. Yes, I have that.

Q. Do you mean by that answer to say that Penn-Water recovered its claim for loss of 21,600 bags of cement? A. No, I did not.

[19763] By MR. HALL:

Q. Was the James E. Hopkins who you referred to at page 19587 of the transcript as being a director of Susquehanna Contracting Company, also a director or officer of McCall Ferry Power Company? A. No, he was not.

Q. Referring to the volume of Executive Committee Meetings which Mr. King had you examine for the limited period from October to December 6, 1905, will you state what that volume shows as to the place of the McCall Ferry executive meetings from the period December 9, 1905, to March 17, 1909? A. The meetings during that period were held at 60 Wall Street.

Q. Whose offices were located at 60 Wall Street, New York, during the period December 9, 1905, to March 17, 1909? A. The offices of McCall Ferry Power Company were located at 60 Wall Street during that period.

Q. In connection with those items in the K-1 and K-2 Schedules of Exhibit 320 where you were asked about the durability of the new items over the old, did you assume the new items were more durable in reaching your conclusions? A. Yes, I did.

Q. In other words, you accepted the company's claim in that regard? [19764] A. That is correct.

Q. Referring to the items listed in the K-1 and K-2 Schedules of Exhibit 320, is the work covered by those schedules properly characterized as repair? A. Yes, the work was made necessary because parts had worn out or failed in operation and it was necessary to repair them.

In repairing them the Company sometimes used better material which was available at that time.

Q. Referring to the items on Schedule K-1 and K-2 and assuming the work was performed today and the accounting therefor was pursuant to the present FPC system

of accounts, and further that those items were not capitalized, would you recommend that those items be reaccounted for and capitalized on the company's books? A. No, I would not. The management is allowed considerable discretion in items of that nature, and where the decision is made and it is a reasonable one, we do not seek to change it.

. . .

By MR. HALL:

Q. Having considered Exhibits 454 and 455, would you [19765] consider any part of Mr. Bushong's salary or of the Lancaster office expense as chargeable to Holtwood steam plant construction account? A. No, I would not consider any part of it as a proper organization expense.

Q. Having examined Exhibit No. 455, does it afford you a basis for determining if any of Mr. Zimmerman's fees should be allowed as part of the Holtwood Power Company organization expense? A. No, the information given there does not afford me any basis for allocating Mr. Zimmerman's fee.

. . .

[19767] By MR. HALL:

Q. Referring to transcript 19,589 and specifically to line 3 on that page where the reporter indicates that you were interrupted before you completed your answer to the Examiner's question, will you complete the answer which you intended to give? A. The words, "Were present," should be added at the end of that line, that is, it should read, "And by request Messrs. Fisk, Lane and Hutchinson were present."

. . .

[19773]

DONALD L. WETZEL.

DIRECT EXAMINATION.

By Mr. KING:

Q. Mr. Wetzel, you have heretofore been sworn and testified in this proceeding? A. Yes, sir.

[19774] Q. You are now employed by the Pennsylvania Water and Power Company? A. Yes, sir.

Q. In what capacity? A. Budget engineer.

Q. How long have you been employed by that company? A. Since 1936.

Q. Will you give us a brief summary of your experience to date? A. I was employed as an electrical tester by G. E. for a period of two years, testing locomotives and electric locomotive equipment, and by Duquesne Light Company for a period of one year testing instrument transformers.

I was employed as a material expediter in the construction of overhead transmission lines for a period of two years.

MR. GOLDBERG: By Duquesne Light Company?

THE WITNESS: Yes. I was employed as supervisor of the installation of heat insulation in connection with the construction of steam power plants and commercial steam generating facilities for Duquesne Light Company, the Allegheny Steam Heating Co., and Northern States Power Co. for a period of 2½ years, and I was employed as a cost analyst on underground transmission construction for a period of one year.

In 1934 I was employed by Safe Harbor Water Power Corporation as a material cost checker in connection with [19775] the installation of 25 cycle equipment at Safe Harbor and Conestoga Substation.

In 1936 I began my employment with Pennsylvania Water and Power Company as a material and time distribution checker, becoming thereafter a field-cost engineer.

Baltimore office cost engineer in charge of original cost studies and budget engineer in charge of the budget and cost section of the engineering department, which position I still hold.

By MR. KING:

Q. Will you give us a brief description of the scope of your duties as budget engineer? A. Yes, sir. It is the duty of my department to receive and put into proper form the construction budget items for the year, and for their presentation to the Board of Directors for approval, for the issuance of job orders authorizing the field to do construction work, to follow the costs incurred in job orders, to make an analysis of them, to procure inventories of structures and equipment installed on those jobs, and to associate them with the costs under such jobs, and then in general to follow the plant accounting of the company—are we have other work, of course, such as insurance, and so forth.

Q. Now, Mr. Wetzel, did you make an analysis of the job orders in the company's files in connection with the items listed on the A Schedules attached to Exhibit 320? A. Yes, sir.

[19776] Q. And the K Schedules represent the result of that analysis by you, right? A. It represents an analysis of the residue of what we refer to as the company claims which were not accepted by the FPC Staff Examiners.

Q. Some of the company's claims were accepted, is that correct? A. Yes.

Q. And those claims are of the same nature as the items in the K S Schedule, is that right? A. I am not sure at the present time that they are all of the same nature, but they all are claims of the company.

Q. Are some of the items in the K Schedule of similar nature to items which the Commission Staff allowed? A. Yes.

[19777]

CROSS-EXAMINATION.

By MR. GOLDBERG:

[19784] Q. Will you please specify which of the items accepted by the Staff of the Commission are, in your opinion, similar [19785] to those in the K Schedules of Exhibit 320?

A. Oh, I believe the additions.

[19786] Q. Does Schedule K-1 of Exhibit 320 represent how the company treated the items or does it reflect your opinion of how the company should have treated the items?

A. It represents not only my own opinion of how the company should have treated the items, but also the opinion of Mr. Gunn, Mr. Eichhorn, and so on, counsel.

Q. That means that the K Schedule reflects the opinions of the individuals you have named as to how the company should have treated the items, but does not reflect how the company did treat the items, right? A. That is correct.

Q. And that applies to Schedules K-2, K-3 as well, right? A. Yes, sir.

Q. Would you agree with me that the determination of whether the item represents an addition, betterment or replacement involves the exercise of judgment?

THE WITNESS: Yes, I would say many of them are very self-evident but they may require some exercise of judgment.

[19787] By MR. GOLDBERG:

Q. You will also agree with me, I think, that it is fair to state that there are no hard and fast rules or standards or clear lines of demarcation, as between additions, betterments and replacements? A. No, I cannot agree to that statement.

Q. Do you think there are clear lines of demarcation which one can follow in determining whether the item is

an addition, replacement, betterment or repair, is that right? A. Well, if I may, I would like to put it this way: That in the majority of instances the line of demarcation is very evident. In some instances it may be considered as an on-the-fence item. That is the only way I can characterize it.

Q. Would you say that there are on-the-fence items in the K Schedules? A. I believe not.

Q. You think in each of the instances reflected in the K Schedules the category is self-evident, is that right, and did not involve the exercise of judgment? A. I believe that is true with at least the very great majority of them.

Q. But you think there are a number of them where it is not true, is that right? A. No, I would say there are a few of them.

[19788] Q. Well, since you say there are only a few of them, where it is not true will you please specify those few?

A. I would say Item 26 covering the construction plant buildings on page 6 of Schedule K-2 is argumentative.

Q. Is that the only one you can specify? A. That is the only one I can find offhand. I would have to make a rather thorough examination to identify them.

Q. Based upon your present examination and your knowledge of your determinations at this time, we can say as to the others that the classification as between addition, betterment, replacement or repair is self-evident and does not involve judgment? A. No. Let me put it this way: That as regards the specification as to whether or not the item belongs in K-1, K-2 or K-3 it is of no great importance, it was considered to be of no great importance in this series of schedules. What was to be considered of importance was the fact that the item was one of the three.

Q. That is, whether it should be capitalized or not, is that right? A. That is right.

Q. Now, then, let us go back to my question and having your explanation in mind will you take my question.

[19789] THE WITNESS: Well, the fact that the item is a capital improvement is self-evident.

By MR. GOLDBERG:

Q. Let me put it this way: Whether it is a capital charge, or not, which you say was the important thing, is a matter of judgment, right? A. Yes.

Q. There are no hard-and-fast rules or standards which you can apply in determining that, right? A. As I said before there are in some cases on-the-fence items but in the majority of cases it is self-evident that the items are of a capital nature.

Q. Well, now, is it your statement that there are hard and fast rules to determine whether it is a capital charge, or not? A. Yes, there are.

Q. There are? A. Yes.

Q. It doesn't require the exercise of judgment? A. Only in those cases where the question becomes [19790] debatable as to whether those hard and fast rules are hard and fast enough to cover the point.

Q. There are different rules for each of the items that you were dealing with in the case of the K Schedules?

A. I will not say that there are some items here classified as betterments which may, in fact, not be—in Schedule K-1—may, in fact, not be just as applicable under K-2 or K-3, depending on the treatment given.

Q. As you said the important thing is not whether it is K-1, K-2 or K-3, so I am directing myself to the important thing, whether it is a capital charge or a charge to operations. Did you apply the same rule to all of the items in the K-1 Schedules? A. I believe so, but we applied a general rule first.

Q. What was that general rule? A. The general rule was to the effect that if the property [19791] of the company, the physical property of the company did not accurately or was not accurately reflected in capital costs of the company, that certain adjustments should be made in-

cluding the writing-off of property which did not exist and the capitalizing of items of a capital nature which did exist but which were not on the books of account.

Q. That general rule I suppose you applied to the K-2 and K-3 Schedules as well, is that right? A. Yes, except in the matter of the K-2 Schedule, it was a fact that the company may have had the same property as it had on its books of account, but it had been added to since the item was first acquired.

Q. Is there any exception with respect to K-3 Schedules? A. The K-3 Schedules are sort of the same effect.

Q. As K-2? A. K-2 is marked "Betterments"; K-3 is marked "Replacements Involving Betterments".

Q. This general rule begins "If the physical property of the company was not accurately reflected in capital cost of the company;" how was it decided whether or not the physical property of the company was accurately reflected in the capital cost of the company as applied to the K Schedules? A. Well, as part of the original cost studies the company took a physical inventory of its property. It also made an analysis of the plant costs, then it reconciled the plant [1972] costs with the physical inventory of the property.

If the plant costs reflected the purchase of property which the physical inventory did not reflect, it was due to the fact, first, that the property may have been abandoned in which case it was written off the books; in the second place it may have indicated that the property was used in construction, that is, it was of an incidental nature in constructing the company's property, in which case it became an indirect cost.

Then there were items of equipment inventoried which could not be found in the analysis of the plant costs of the company. That indicated that the original charge, the original cost of that item had not been charged to plant costs, but elsewhere. If that were true a claim was made similar to these.

Q. Now, what standards did you apply in connection with the K-1 Schedules to ascertain whether there should be a re-accounting for the charge which had not originally been made to plant account? A. The standard was this: That if the physical inventory indicated that there was a purchase of one type of equipment, that there should be a purchase of one type of equipment but the actual purchase indicated otherwise, we had to justify the difference between the two and we very often found it was due to the betterment existing in the [19793] physical item that the original cost for the item and the description of physical inventory would differ.

Q. I have difficulty in following that. Could you take one of the items and illustrate what the last answer means? A. Well, take Item 6 of Schedule K-1, "Generator Room Controller and Cab". The physical inventory of the controller and cab on that generator room crane did not tally with the original purchase of the equipment. Therefore it was evident that some change had been made between the time of the original purchase and the time of the inventory. The claim for the two items identified here now makes it possible to reconcile physical inventory with the cost as adjusted.

Q. Now, then, in reaching your conclusions that the items in the K Schedules should be charged to plant account and that the company originally erred in not so treating the items, did you, yourself, apply the Standards of Accounting in the 1919 Pennsylvania System of Accounts?

THE WITNESS: I cannot answer your question directly, Mr. Goldberg. I will have to explain, if I may.

The decision to make claims to have the company's physical inventory of property and cost properly reconciled was made by Mr. Gunn, Mr. Eichhorn and counsel. It was my function to make those claims so that the inventory and cost would [19794] reconcile themselves.

In making that determination I was, of course, familiar with the fact that the property, in order to make the claim, should have inherent in it the increase in durability, increase in efficiency, and so forth, as prescribed by the Pennsylvania system of accounts, but I was in no way passing upon the original accounting.

Q. We are not to understand then that you are saying that the accounting followed by the company originally was erroneous under the 1919 Pennsylvania system of accounts, is that right? A. No, except as to this: When

these claims were made after the decision to make such claims had been made and the claims had been made, they were reviewed by Mr. Gunn and Mr. Eichhorn as to the propriety of them and in so doing they may, or may not have passed on the former accounting, I do not know.

Q. Yes, but I am interested in your process and if I understand your answer you agree with me that you personally, in dealing with the items of the K Schedules and setting them up, did not reach any conclusions as to the propriety of the accounting followed by Penn Water under the system of accounts in force at the time, is that right? A. May I ask you if you mean by that question as to

whether or not it was made upon managerial discretion, and so on, or whether it was incorrect as far as proper records are [19795] concerned? Which of those?

Q. Accounting. A. Accounting?

Q. Proper accounting for the items under the applicable system of accounts. A. The fact that it was incorrect accounting had already been established before I made these claims.

Q. So that you did not consider or concern yourself with the propriety of the accounting followed, right? A. No, that fact had already been established.

Q. Established by whom? A. Mr. Eichhorn, Mr. Gunn and counsel.

Q. But you reached no independent decision on that? You accepted their conclusion that the accounting had been

improper? A. Yes, but that did not give me authority to make any claim I wanted to make. I had to confine my claims to reconciling physical inventory with cost.

[19796] Q. Is not this the fact, that the job orders referred to in the K Schedules contain rather elaborate descriptions of the work done? A. In some cases, yes. I do not recall just the degree of description given in each of the job orders involved here.

Q. In some cases the job orders consist of many pages, sometimes as many as 20 pages, right? A. I believe so. That is the information contained in [19797] the job order folder; the job order itself is a single sheet of paper.

Q. Were there any instances where the job orders did not provide you with sufficient detail to reach your conclusions referring to items which you have included in the K Schedules? A. I believe that is true. We had to go to people in the company who knew the situation in order to find out the true facts in the matter.

Q. People in the company who had worked for Penn Water at the time the jobs had been done? A. Exactly so, and knew what work had been done, yes.

Q. They relied on their memories, did they not? A. No, there was very often other correspondence which related to the work, drawings, notes of men in the field, and things of that nature.

Q. Very often it was merely memory they relied on to supplement their information, right? A. I do not believe I can think of a case which is that vague, no.

Q. Did you personally secure the supplemental information? A. Most of it came to me in such form that I could readily determine whether it was proper or valid information.

Q. Do you know whether you had available to you in reaching your conclusions, regarding the items in the K [19798] Schedules all the information which Penn Water

had at the time the original determination was made as to how the items should be handled? A. I cannot answer that without having some specific item in mind. Can you point one out?

Q. Well, not having done the job myself you are putting the burden on me that is really on you. I just want to know if you can tell me right now, having in mind the items in the K Schedules, whether you had all the information available to you that the company had available to it at the time the original determinations were made? A. I do not know. I would say that I had the very great majority of the information available to me that the company had at the time it made its plans and charges.

Q. Do you have any reason to doubt that the company, at the time the entries were made, had as much information to go on as you did? A. I believe they had as much information as I did but they neither applied it consistently nor correctly.

Q. Do you have any doubt that they knew that the items in the K Schedules were more durable than the old items that were being replaced or repaired? A. You are now referring to betterments particularly, I assume?

Q. K-1 Schedules. [19799] A. At that time it was of no great consequence to the company whether it charged the capital accounts for betterments, or not. It was not a matter of rate base at that time or original cost, or reconciliation of original cost of items with inventory.

Q. That does not answer my question.

. . .

THE WITNESS: They may have known that they were more durable and decided to ignore it in view of the circumstances.

By MR. GOLDBERG:

Q. What did you mean when you said it was not a matter of rate base? A. At the time the entries were made

it did not matter to the company whether or not the items were capitalized.

Q. Why? A. It did not affect its earnings.

Q. Why didn't it? A. It was on an energy form of contract at that time.

Q. You were not then speaking of principles of regulation being involved, is that right? A. No, what I meant to indicate was it is of much more importance now to have the plant accounts reflect the property than it was at that time.

Q. And you think because of that reason the company [19800] at that time, the time the entries were made, was not so much concerned with correct accounting? A. Yes, sir.

[19801] RE-DIRECT EXAMINATION.

By MR. KING:

Q. Mr. Wetzel, the job orders which you analyzed in connection with the K Schedules, together with the file in which they were contained, were all made available to the Commission Staff, were they not? A. Yes, sir.

[19833] MR. GOLDBERG: "Johnson's Legal Opinion Re Organization of the Company;" Part 65, "Johnson's Legal Opinions Re Eminent Domain;" Part 8, "Lee's Affidavit." Part 24, "Hopkins' Affidavit."

I think Hopkins or Lee is still alive and was not produced for cross-examination.

TRIAL EXAMINER: Which one is alive?

MR. GOLDBERG: I think the record already shows which one Mr. Gunn thought was still alive.

MR. KING: It is Lee.

TRIAL EXAMINER: What is his condition? Where is he living and what is his physical condition?

MR. KING: He resides outside of Boston. He is a man in the late 80's, I believe, an elderly man. We have communicated with him and his doctor forbids him to leave his home.

TRIAL EXAMINER: I think I remember that.

MR. KING: You remember that.

TRIAL EXAMINER: Yes.

[19865]

GEORGE H. DAVIS.

CROSS-EXAMINATION.

[19964] TRIAL EXAMINER: Just one other question I want to ask before we recess.

If I recall your testimony on either cross or direct with regard to the assignment of the Holtwood-Highlandtown line and Highlandtown substation, your basis for assigning them directly to Baltimore was a consideration of the amount of energy used in connection with the time-of-year use? Is that correct?

THE WITNESS: No, that energy and the time-of-year use, or the time of the year it was used was with reference to the 220 kv lines, not the Highlandtown line.

TRIAL EXAMINER: What was your basis for the [19965] Highlandtown line?

THE WITNESS: That Baltimore used substantially all of the energy that was carried over that line, or used all of the energy that was carried over that line, and I did not consider its use as a return, just a direct delivery to Baltimore.

[19972]

RE-DIRECT EXAMINATION.

By MR. GOLDBERG:

Q. Mr. Davis, at transcript 19008, line 22, in answer to a question by Mr. Myse you testified that you are "not [19973] using in this allocation, the costs reported by Holtwood Company" and at transcript 19009, line 2, in response to another question by Mr. Myse you further testified that the \$5,157,627 was not the total cost as reported by Holtwood.

Will you please explain what you mean by that testimony? A. Yes, I think it will be easier to understand if I use specific illustrations.

For example, the costs I have used contain an item of return based on a 5 per cent rate of return on the depreciated rate base whereas Holtwood Company reports costs of service computed on an undepreciated rate base at a rate of return in excess of 5 per cent.

Also the costs I have used in my allocation contain a figure for income taxes based on the income of a 5 per cent rate of return rather than on the income which is presently received by Holtwood Company.

These are the principal illustrations which result in a variance between the costs I have used and those reported by Holtwood Company.

Of course there are many instances where the costs I have used are the same as those reported by the company.

Q. At transcript 18975, Mr. Myse was questioning you regarding your statement that the methods followed by Mr. Spaulding of combining all Safe Harbor and all of Holtwood's cost of service results in the allocation of a greater ratio [19974] of Holtwood's cost to Baltimore than if he had developed the ratio for Holtwood alone, and in that connection you testified at that page that you were referring to the costs involved in supplying power and energy and special facilities.

Were you correct in testifying that you were referring to special facilities? A. No, my answer should have been confined to power and energy.

Q. And when you testified as you did at line 17 of transcript 18989, were you there speaking of power and energy only? A. Yes, I was.

Q. Have you checked the figure of \$74,379 which you deducted for "fuel" and which is referred to at line 24 of transcript 19018 for the purpose of ascertaining whether it is an average figure? A. Yes.

Q. Is it an average figure? A. Yes, it is the average of the fuel in storage at the end of each month during the year.

Q. And at transcript pages 19039 to 19043 you were [19975] asked concerning the assignment of two-thirds of the 220 kv lines to Baltimore and one-third to pool and particularly concerning the energy use of the lines in 1946 as compared with 1944, which you said was one of the considerations you took into account.

Were there other considerations which influenced your determination? A. Yes, I considered the fact that in periods of low flow these lines provide the only dependable source of energy required to supply Penn Water's firm requirement in Pennsylvania during those hours when the water is being stored at the hydro plants, particularly if such low flow should occur in the peak load months.

This consideration, though not susceptible to mathematical determination, does indicate to me a greater use of the 220 kv lines for service to Pennsylvania customers than appears from a direct comparison of the energy actually transmitted over the lines in any one year.

TRIAL EXAMINER: What page was that?

THE WITNESS: 19043.

MR. GOLDBERG: 19039 to 19043.

TRIAL EXAMINER: Where did you stop on 19043?

At the bottom of the page?